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MARKETING CHANNELS FOR EGGS

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MARKETING CHANNELS FOR EGGS

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ABSTRACT

Egg marketing channels have become more direct and simplified over the last two decades. Packing plants now are major receivers of eggs from producers and the major suppliers to retail outlets, institutions, and breakers. The role of wholesale distributors has continued to decline. Direct marketing producers have grown in importance. About 72 percent of the commercial egg supply is consumed as shell eggs by households, 16 percent is used by institutional outlets, and the balance is used in manufactured products.

Keywords: Eggs, marketing channels, supply sources, outlets, product form.

Today's egg marketing channels may seem somewhat involved, even in the simplified form outlined in figure 1. Yet, they are considerably more direct and involve fewer kinds of firms than they did 3 or 4 decades ago. The more important developments relating to egg marketing channels have been:

(1) The movement of egg cartoning from near the area of consumption to packing plants near producing areas.

(2) The decline and virtual disappearance of a complex network of local buying and assembly stations, and the accompanying rise in direct procurement by commercial egg packing plants.

(3) A shrinking share of volume moving through wholesale receivers, commission houses, and jobbers.

(4) Extensive vertical coordination in the egg industry, resulting in closer tie-ins between producing, packing, input-supplying, and distributing firms, as well as in the emergence of multiple-function firms difficult to categorize.

(5) A resurgence of direct marketing producers. Many smaller producers have always relied heavily on local outlets, and while numbers of small producers have declined substantially, many thousands remain. Moreover, many larger producers now do their own grading and packing and sell directly to breakers, retail stores, institutions, and consumers.

(6) An increase in the relative share of volume going to the institutional trade, including away-from-home eating establishments.

(7) An increase in the relative share of volume going to commercial egg breaking and drying plants, with the subsequent output being used in manufactured food products.

(8) A relative shift in base price determination from the city receiver level back toward the packer and producer.

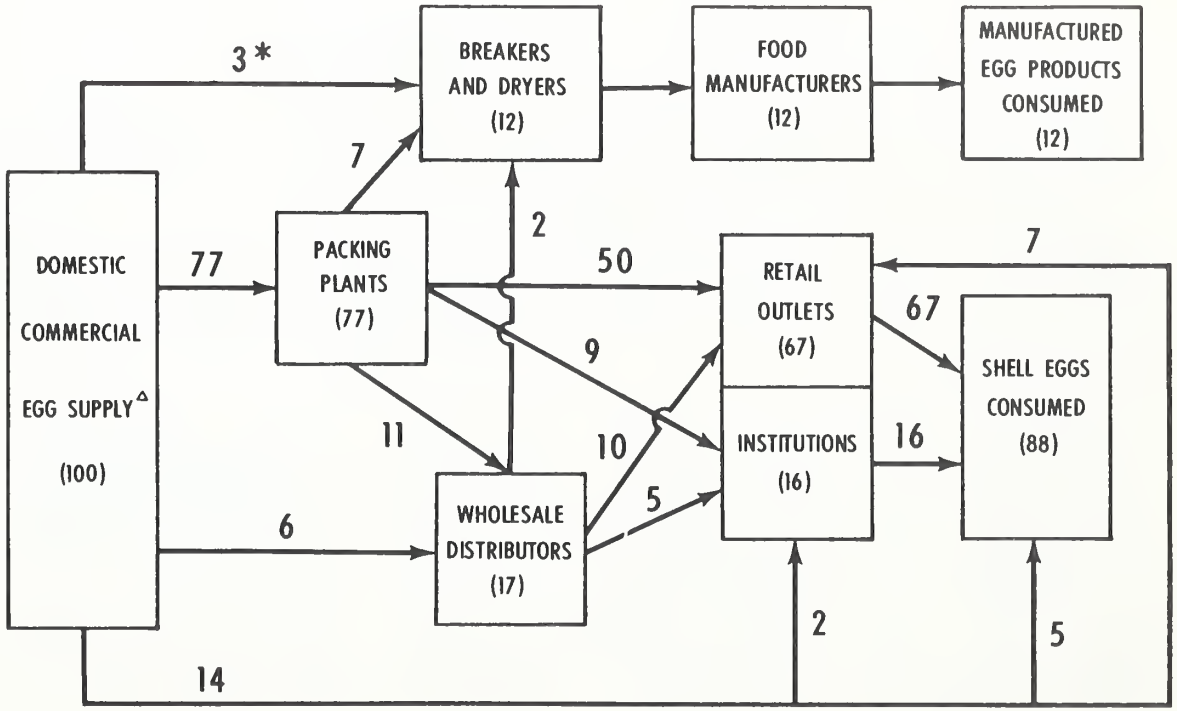
(9) A progressive improvement in the quality of eggs moving off farms and reaching consumers and an upward trend in average egg size.

Marketing channels for the domestic commercial egg supply shown in figure 1 do not include exports, imports, consumption on farms where produced, or eggs used for hatching. Egg imports are small and are greatly exceeded by exports. Net exports in turn are less than 1 percent of total supply. About 1 percent of the eggs produced are consumed on farms. About 6 percent of the supply is used for hatching.

Types of Movements in Marketing Channels

The movements through marketing channels identified in figure 1 may be called forward movements. They represent a progression from supply sources through subsequent handlers toward ultimate users. The numbers are net values, since they exclude backward and lateral movements. Backward movements occur when eggs move from ultimate users to handlers or from handlers to supply sources but these are infrequent and insignificant. About 2 percent of the volume handled by packers

NET MOVEMENTS OF EGGS THROUGH COMMERCIAL MARKETING CHANNELS, 1971-72



△EXCLUDES EXPORTS, IMPORTS, EGGS CONSUMED ON FARMS WHERE PRODUCED, AND EGGS USED FOR HATCHING. *PERCENTAGES OF DOMESTIC COMMERCIAL EGG SUPPLY.

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Figure 1

comes backward from wholesale distributors. Occasionally, a producer may buy eggs from or have them returned to him by a packer, wholesale distributor, or consumer. Retailers may occasionally return eggs to a packer or sell them to a distributor or breaker. This is usually related to temporary surplus situations or eggs which have gone beyond the code date.

Lateral movements occur between producers, between packers, between breakers, between distributors, between institutions, or between retailers, and are usually made to help balance the surplus and deficit positions of individual firms. Direct marketing producers may acquire as much as 10 percent of their supply from other producers. Packers or wholesale distributors may acquire as much as 5 percent of their supply from other packers or other wholesale distributors. Little exchange probably occurs between retailers since most eggs are sold in branded cartons.

Subsequent discussions are in terms of forward movements. The other kinds are now much less important than in earlier years due to the growth of simpler and more direct marketing channels.

Marketing Firms

The extensive development of vertical coordination in the industry makes it more difficult to identify pure single-function firms. Many larger producers have integrated forward into packing and distributing and also into input-supplying. Packers and wholesalers have integrated backward into production and input-supplying, and forward into direct distribution. Some egg packers operate their own egg breaking plants. Some retailers have integrated backward toward the producing level. The subsequent discussions classify firms by their main function, despite the extensive integration that exists between that function and other functions.

Certain types of firms and outlets involved in egg marketing channels are included under the general categories shown in figure 1, or exist as service units for these categories. For example, brokers may serve

Table 6--Sources of egg supplies for major types of primary marketing firms, 1971-72

Type of firm	Proportion of total commercial supply	Source: Owner-integrators and marketing agreements	Source: Contract production and marketing contracts	Source: Independent producers	Total
		Percent			
Direct-marketing producers	17.0	40.0	10.0	50.0	100.0
Large sized egg packers	21.5	28.0	31.0	41.0 [2]	100.0
Small and medium sized egg packers and wholesale distributors	61.5	24.0	31.0	45.0 [3]	100.0
Total	100.0	27.5 [1]	27.5 [1]	45.0	100.0

1/ About 7.5 percent represent marketing agreements and 7.5 percent represent marketing contracts.

2/ Includes 6.3 percent from other firms, mainly packers and dealers.

3/ Includes 7.2 percent from other firms, mainly packers and dealers.

as sales agents, primarily for egg packers, breakers, or distributors in lieu of such firms doing all their own selling. Wholesale distributors include city receivers, jobbers, and institutional supply houses. Institutions include such diverse outlets as restaurants, public and private institutions (including schools), the School Lunch programs, and military bases. Retail outlets include chain and independent stores, military post commissaries, hucksters, dairies, company retail stores, etc.

Primary Egg Marketing Firms

These firms perform the assembly, grading, packing, and cartoning functions, and forward eggs to secondary egg marketing firms and ultimate users. Primary egg marketing firms include packing plants, wholesale distributors, and direct marketing producers.

Direct marketing producers handle 17 percent of the domestic commercial egg supply; packing plants receive 77 percent of the supply from producers; wholesale distributors receive the remaining 6 percent directly plus an additional 11 percent from packers.

Packing plants are by far the most important type of primary egg marketing firm. They now handle over three-fourths of the eggs moving through marketing channels, compared with less than three-fifths in the 1950's. Packing plants are the most important suppliers of eggs to retail outlets, institutions, wholesale distributors, and breakers.

In 1971, 113 large packers handled 21.5 percent of the commercial egg supply. Hundreds of small to medium packers handled more than double that volume. Compared with other firms, large egg packers have a slightly larger share of their supply

Table 7--Supply sources and outlets for major types of egg marketing firms, 1971-72

Net movements to --	Producers	Packing plants 1/	Wholesale distributors	Total
	Percent of commercial egg supply			
Primary egg marketing firms:				
Packing plants	77	-	-	-
Wholesale distributors	6	11 2/	-	-
Total	83	-	-	-
Secondary marketing firms and ultimate users:				
Breakers	3	7	2	12
Institutions	2	9	5	16
Retail outlets	7 3/	50 4/	10 5/	67
Consumers	5 3/	4/	5/	5
Total	17	66	17	100

1/ Includes packing plants operated by retail firms.

2/ 77 percent of commercial volume goes from producers to packing plants, 11 percent is in turn sold to wholesale distributors.

3/ Includes dairies, house-to-house hucksters, and retail stands where they are the only intermediaries between producer and ultimate user.

4/ Less than 3 percent of commercial volume sold by packing plants to consumers; included under retail outlets.

5/ Less than 1 percent of commercial volume sold by wholesale distributors to consumers; included under retail outlets.

firmly committed to them through ownership of their own flocks, contract production, and marketing agreements and marketing contracts. Larger packers also supply larger shares of their volume to egg breakers and wholesale distributors. Small to medium packers supply larger share of their volume to retail stores and institutions than do large packers.

Wholesale distributors now handle about 17 percent of the commercial egg supply, compared with 28 percent in the 1960's and 69 percent in the 1950's. About one-third of the present volume handled by wholesale distributors comes directly from producers and the remaining two-thirds from packing plants. In the 1950's and 1960's, about half of their supply came directly from producers. Of the volume now received by wholesale distributors, about half is acquired from firmly committed sources.

In the 1950's, wholesale distributors supplied over 80 percent of the eggs going to retailers and institutions from packers and distributors. By the 1960's, their share fell to 32 percent. Today, they supply about 18 percent of the volume going to retailers and institutions from packers and distributors.

Direct marketing producers, primarily because of the growth of larger producing units, are somewhat more important now in primary egg marketing than in the 1950's and 1960's. Many large producers have integrated forward into commercial packing and distributing, and also have made commitments with other producers to gain control over larger volumes. Direct marketing producers are important, but not the major suppliers of eggs to retailers, consumers, breakers, and institutions. Many producing firms marketing large volumes of eggs can now be classified as packers because they acquire more eggs from others than they produce themselves.

Secondary Egg Marketing Firms

These firms supply eggs received from primary egg marketing firms to ultimate users. Secondary egg marketing firms include breakers, institutions, and retail outlets.

Table 8--Consumers' sources of eggs and egg products, 1971-72

Source	Percent of total consumption	Product form
Manufactured foods	12	Sold by breaking and drying plants as liquid, frozen and dried egg products to food manufacturers..End products include such items as bakery goods, mayonnaise, noodles, confections, prepared mixes, dietary items. Distributed to institutions and retail outlets.
Institutions, including away-from-home eating places	16	Mainly received by institutions as loose-packed shell eggs in cases; prepared by institutions prior to consumption.
Retail outlets and producers	72	Mainly purchased by consumers as shell eggs in cartons, and prepared at home.
	100	

Breakers produce liquid or frozen egg products. They may also produce dried egg products in their own plants or furnish liquid or frozen eggs to other dryers. Food manufacturers make prepared food products from liquid, frozen, or dried eggs. Such products are, in turn, distributed to retail outlets and institutions. About 12 percent of the commercial egg supply is consumed in the form of manufactured food products. Breakers formerly handled 10 percent or less of the commercial egg supply.

Breakers obtain almost 60 percent of their eggs from egg packing plants, 25 percent from producers, and the remaining 15 percent from wholesale distributors. Some breaking plants have contract arrangements with producers to produce eggs of the type they require.

Institutions use about 16 percent of the commercial egg supply. Almost 60 percent of this comes from egg packing plants, over 30 percent from wholesale distributors, and the remainder from direct marketing producers. Institutions formerly handled about 12 percent of the commercial egg supply.

Retail outlets handle about two-thirds of the commercial egg supply. Almost three-fourths of their eggs come from egg packing plants, about 15 percent from wholesale distributors, and over 10 percent from direct marketing producers. Chain and independent retailers are by far the most important firms in this group. Retailers themselves operate a number of egg packing plants. With the increase in the shares of egg use by breakers and institutions, the proportion of the commercial supply moving through retail outlets has declined from less than three-fourths to its present level of two-thirds of the commercial supply.

Egg Quality and Product Form

About 92.5 percent of the eggs moving off farms are of Grade A quality or better. Grade B and Grade C eggs account for about 3 percent, cracks and checks for 4 percent, and discards for 0.5 percent. The share for Grade A or better varies somewhat by regions, averaging highest in the Northeast and lowest in the West North Central region.

Some breakage occurs in marketing channels, but probably less than 3 percent. Quality deterioration is minimal when proper refrigeration is employed. For example, USDA grade specifications allow only a 5 percent reduction in the proportion of Grade A's between origin and destination grading. Moreover, a high percentage of the undergrade eggs go to breaking plants. In fact, most undergrades can only go the breaking plants under the provisions of the Egg Products Inspection Act of 1970. Institutional packs average almost as high in quality as eggs cartoned for the retail trade. Consumers now buy relatively few Grade B packs at retail, and sales of checks, etc., are restricted to small and local trade. Thus, household consumers probably buy better than 95 percent of their eggs in Grade A (or better) packs.

Three-fourths or more of the eggs moving off farms are Large or better (up to 15 percent are Extra Large and Jumbos), about 20 percent are Mediums, and about 5 percent are Small or less. The export trade uses some of the Small and Medium egg supply, and many of these eggs go to breaking plants. Thus, household consumers buy a larger share of their eggs as a Large or better than would be indicated by the off-farm measurements.

About 12 percent of the commercial domestic egg supply reaches consumers in the form of manufactured products. Most of the 16 percent of the eggs going to the institutional trade are loose-packed in cases. Most of the 72 percent reaching household consumers through retail outlets or direct delivery are cartoned.